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AVMA NEWS

IRS Clarifies Tax Requirements for Veterinarians

The AVMA and the Internal Revenue Service reached an agreement that will save many practitioners thousands of dollars in back taxes, hours of aggravation and IRS investigation.

An IRS ruling issued in mid-August overturns an earlier ruling which would have required veterinary corporations not filing as personal service corporations between 1987 and 1991 to pay additional taxes, penalties, interest charges, and accountant fees.

Veterinarians who, on the advice of their accountants, classified themselves as "C" corporations rather than "Qualified Personal Service Corporations" (QPSC), were paying an escalating rate starting at 15% of taxable income. Qualified Personal Service Corporations are required by law to pay corporate taxes at a flat rate of 34% of corporate profits.

The tax bill that became effective on January 1, 1987 left confusion as to whether or not veterinary corporations met the QPSC definition. On May 13, 1991 the IRS ruled that it was always their intention veterinarians be included as health care professionals and as such qualify as personal service corporations even though it was not spelled out. The August ruling stipulates veterinarians will not be responsible for taxable years prior to May

13, 1991.

"Without the change in the ruling, veterinarians were subject to filing amended returns and may have been required to pay the difference between the 15% and 34% rate dating back to January 1, 1987," explained Dr. Roland Dommert, Executive Vice President of the AVMA.

The most recent ruling stipulates that qualified veterinary personal service corporations must use a 34% corporate income tax rate, utilize a calendar year as its taxable year, unless a petition for using a fiscal year is granted by the IRS, and must not be precluded from using the cash method of accounting.

For a copy of the new IRS ruling call 1-800-248-2862, extension 227, or 1-800-321-1473.



Photo by Dianne Hellwig